HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED JULY 30, 2016

Dated September 6, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled or jointly controlled by them, referred to herein as "HBC", the "Company", "we", "us", or "our." It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen and twenty-six week periods ended July 30, 2016. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The Company's Audit Committee approved the contents of this MD&A. This MD&A reflects information as of September 6, 2016.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

General Information

Hudson's Bay Company is a Canadian corporation amalgamated under the *Canada Business Corporations Act*. In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly owned subsidiary of HBC. On November 26, 2012, the Company completed an initial public offering (the "IPO") of its common shares (the "Common Shares"), which trade on the Toronto Stock Exchange under the symbol "HBC".

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), in an all-cash transaction valued at U.S.$2,973 million, including assumed debt (the "Saks Acquisition").

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture, RioCan-HBC Limited Partnership (the "RioCan-HBC JV"), which focuses on real estate growth opportunities in Canada. The second tranche of the RioCan-HBC JV closed on November 25, 2015. As of July 30, 2016, HBC had an 88.4% ownership interest in the RioCan-HBC JV.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV"). On September 30, 2015, prior to the Kaufhof Acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture"), which focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States and internationally. As of July 30, 2016, HBC had a 64.7% ownership interest in the HBS Joint Venture.

As further described herein, on September 30, 2015 (the "Kaufhof Acquisition Date"), the Company completed the acquisition of GALERIA Holding ("Kaufhof"), the parent company of Germany's leading department store GALERIA Kaufhof and Belgium's only department store Galeria INNO, for a purchase price of €2.3 billion (the "Kaufhof Acquisition"). In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties. For further details regarding the Kaufhof Acquisition, please refer to the Company's business acquisition report dated December 22, 2015, which is available on the Company's website at www.hbc.com and on SEDAR at www.sedar.com. Also see "Kaufhof Acquisition".

On February 1, 2016 (the "Gilt Acquisition Date"), the Company completed the acquisition of Gilt Groupe Holdings Inc. ("Gilt") for U.S.$239 million in cash, excluding debt (the "Gilt Acquisition").

References in this MD&A to Department Store Group ("DSG") refer, collectively, to the Hudson's Bay, Lord & Taylor and Home Outfitters banners.

References in this MD&A to HBC Europe refer, collectively, to the GALERIA Kaufhof, Galeria INNO and Sportarena banners.

References in this MD&A to HBC Off Price refer, collectively, to the Saks Fifth Avenue OFF 5TH ("Saks OFF 5TH"), Find @ Lord & Taylor and Gilt banners.

Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen and twenty-six week periods ended July 30, 2016.

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the benefits that are expected to result from the acquisitions of HBC Europe and Gilt, the Company's plans for expansion in Europe, the benefits that are expected to result from the installation of automated order fulfillment technology at the Company's distribution centre in Toronto, benefits of reduced promotional activity at Saks OFF 5TH and an enhanced return policy at Gilt, impact on the Company's reported gross profit and expense margins as a result of the acquisition of HBC Europe, the benefits that are expected to result from the North American operations realignment initiative and additional cost saving activities, expected expenditures on investments in growth initiatives, the Company's prospects for future growth opportunities, including targeting acquisitions, anticipated store openings, the Company's growth strategies of improving retail operations and unlocking the value of real estate, and the Company's commentary on outlook in respect of Sales, Adjusted EBITDAR, and Adjusted EBITDA, and other statements that are not historical facts, are forward-looking. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

Forward-looking statements are based on current estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Implicit in forward-looking statements in respect of Sales, Adjusted EBITDA, and Adjusted EBITDAR, are certain current assumptions, including, among others, the Company achieving overall low single digit comparable store sales growth on a constant currency basis for the remainder of Fiscal 2016, the Company achieving additional savings from operational initiatives, the Company's anticipated total capital investments, net of landlord incentives, between $750 million and $850 million, the Company opening new stores in North America, the Company maintaining a significant ownership interest in the HBS Joint Venture and the RioCan-HBC JV, and assumptions regarding the overall retail environment and currency exchange rates for Fiscal 2016. Specifically, we have assumed the following exchange rates for Fiscal 2016: USD:CAD = 1:1.32 and EUR:CAD = 1:1.50. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operating results and economic performance of the Company, including with respect to our anticipated Sales, Adjusted EBITDA, and Adjusted EBITDAR, are subject to a number of risks and uncertainties, including, among others described below, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns, the risk that the Company may not achieve comparable sales growth on a constant currency basis for the remainder of Fiscal 2016 and the risk that the Company may not achieve the contemplated cost savings and synergies as described above, and could differ materially from what is currently expected as set out above.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors" section of this MD&A: ability to execute retailing growth strategies, ability to continue comparable sales growth, changing consumer preferences, marketing and advertising program success, damage to brands, dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions and investments, successful inventory management, loss or disruption in centralized distribution centres, ability to upgrade and maintain our information systems to support the organization and protect against cyber-security threats, privacy breach, risks relating to our size and scale, loss of key personnel, ability to retain key personnel of HBC Europe and Gilt, ability to attract and retain qualified employees, deterioration in labour relations, ability to maintain pension plan surplus, funding requirement of Saks' pension plan, funding requirement of the HBC Europe pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties which we do business with or their unwillingness to perform their obligations, exposure to changes in the real estate market, loss of flexibility with respect to properties in the joint ventures, successful operation of the joint ventures to allow us to realize the anticipated benefits, loss of flexiility with respect to properties in the joint ventures, exposure to environmental liabilities, liabilities associated with Target Corporation and its affiliates and other third parties who have assumed leases from the Company, changes in demand for current real estate assets, increased competition, change in spending of consumers, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, extreme weather conditions, geo-political events or natural disasters, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company's Common Shares by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, increase in regulatory liability, increase in product liability or recalls, increase in litigation, developments in the credit card and financial services industries, changes in accounting standards, other risks inherent to our business and/or factors beyond our control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Company's Annual Information Form dated April 28, 2016. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements is to provide the reader with a description of management's current expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlook, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including gross profit, EBITDA, EBITDAR, Adjusted EBITDA, Adjusted EBITDAR, Normalized Net Loss and Normalized Selling, General & Administrative Expenses to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements.

Following the creation of the real estate joint ventures, management believes that Adjusted EBITDAR best reflects the performance of the retail business. This metric provides the most consistent view of the Company's retail performance as it is not impacted by, among other things, HBC's ownership levels of the joint ventures and resulting impact on net rents. The Company believes that Adjusted EBITDA is less useful when evaluating the performance of the retail business, but will continue to disclose this metric for reference purposes.

For additional detail, refer to our tables outlining the relevant definitions and reconciliations of Net (Loss) Earnings to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, Selling General & Administrative Expenses ("SG&A") to Normalized SG&A, and Net (Loss) Earnings to Normalized Net Loss.

This MD&A also makes reference to certain comparable financial results expressed on a constant currency basis, including comparable sales and comparable digital sales. In calculating the sales change including digital sales on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year comparable sales. Additionally, where an acquisition closed in the previous twelve months, comparable sales change on a constant currency basis incorporate results from the pre-acquisition period. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations as well as by reflecting new acquisitions. Definitions and calculations of comparable sales differ among companies in the retail industry. The Company notes that results from acquisitions are only incorporated in the Company's reported consolidated financial results from and after the acquisition date.

Second Quarter Events

- On May 12, 2016, the Company entered into an agreement to modify its leasehold interests in the Saks Fifth Avenue stores at Short Hills Mall in New Jersey and in Honolulu, Hawaii in exchange for total proceeds of approximately U.S.$76 million. The Company expects to receive these proceeds during the third quarter of Fiscal 2016.
- On May 17, 2016, the Company announced that it is expanding its European presence with plans for up to 20 new stores in the Netherlands over a period of 24 months. During the second quarter the Company signed long-term lease agreements for 11 locations in the Netherlands, representing approximately 1.5 million square feet of gross leasable area. Future store openings announced during the quarter include Hudson's Bay stores in Amsterdam, Den Bosch, The Hague, Enschede, and Zwolle.
- On June 9, 2016, the Company declared a quarterly dividend, which was paid on July 15, 2016, to shareholders of record at the close of business on June 30, 2016 in the amount of $0.05 per Common Share.
- On July 19, 2016, the Company closed a U.S.$400 million, 5-year mortgage (the "Lord & Taylor Mortgage"), on the Lord & Taylor flagship property in New York City, located at 424-438 Fifth Avenue, to refinance the existing mortgage of U.S.$250 million due September 2017. The additional proceeds were used to reduce the borrowings on the Company's Global Revolving Credit Facility ("Global ABL"). The new loan will mature in August 2021 and has an interest rate fixed at approximately 4.3%. In connection with this transaction, the lenders independently commissioned a leading international appraiser to provide an appraisal of the property. This appraisal valued the property at U.S.$655 million based on the assumption that the property is net leased by Lord & Taylor at an estimated current fair market rent.
- The Company opened one Saks Fifth Avenue store located in Greenwich, Connecticut and two Saks OFF 5TH stores located in Chicago, Illinois and Plymouth Meeting, Pennsylvania. The Company closed one Home Outfitters store in Anjou, Quebec.

Overview

Our Business

Hudson's Bay Company, established in 1670, is one of the fastest-growing department store retailers in the world. HBC is an innovative company with a strong fashion reputation and a focus on consumers. It is diverse in terms of geography and consumer segment with ten banners, in formats ranging from luxury to better department stores to off-price. It operates more than 480 stores, has a global e-commerce presence, and has approximately 66,000 employees internationally. It is a leader in the all-channel retail experience with a combination of physical store locations and e-commerce capabilities that enable customers to shop whenever, wherever and however they choose. The Company has a top tier management team comprised of seasoned leaders of the retail sector committed to driving profitability and future growth across all banners. The Company has a track record of making successful acquisitions. The acquisition strategy is focused on making opportunistic acquisitions of targets that have great brands, undermanaged retail operations, opportunities for synergies and/or owns great real estate locations. HBC has a history of acquiring companies and generating synergies as well as continuing to grow organically while leveraging economies of scale. HBC is supported by a solid foundation of valuable real estate which enhances financial flexibility.

Retail Strategy

HBC is a global retailer operating banners which include, Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks OFF 5TH, Gilt, GALERIA Kaufhof and Galeria INNO.

The Company intends to continue to grow its retail sales primarily through the following strategies:

- *Driving Growth Across All Channels.* The Company is focused on driving growth both within and across its stores and digital channels. The Company is building its capabilities and enhancing store experiences to allow customers to shop seamlessly across stores and through digital applications. It believes that serving customers across all channels results in increased consumer spending and loyalty. The Gilt Acquisition will enable the Company to incorporate the excellent e-commerce technology Gilt has developed, especially in mobile and personalization, across the Company's retail banners. The Company is also strengthening its digital business which manages digital commerce, marketing strategy and execution for its retail banners. Concurrently, the Company is working to differentiate its store merchandise, increase the number of exclusive offerings and offer engaging store experiences to create attractive retail destinations.
- *Expanding the Company's Off-Price Business.* The Company has refined the Saks OFF 5TH business model to offer more luxury brands at a clearer value proposition in an easier-to-shop environment. The Company plans to accelerate the pace of new store openings and has introduced a larger Saks OFF 5TH format. The off-price market is attractive in North America, and potentially, more attractive across Europe where management believes there is an unmet demand for this offering.
- *Bringing Saks Fifth Avenue and Saks OFF 5TH to Canada.* The Company has leveraged its existing Canadian infrastructure, institutional knowledge and experience to bring Saks Fifth Avenue and Saks OFF 5TH to Canada. As at the end of the second quarter of Fiscal 2016, the Company has opened two Saks Fifth Avenue locations and four Saks OFF 5TH locations which are performing very well. The Company believes there is an opportunity to open up to seven Saks Fifth Avenue stores and up to 25 Saks OFF 5TH stores in Canada over the coming years.
- In addition, the Company believes there is an opportunity to realize meaningful operating margin improvements through the following initiatives:
  - *Operating Expense Management.* The Company intends to continue to diligently manage its operating expenses and leverage its significantly increased scale to optimize efficiencies. The Company undertook a number of initiatives to further reduce operating costs.

    European voluntary restructuring program. During the first and second quarters of Fiscal 2016, HBC Europe announced voluntary restructuring programs. Costs related to those associates who have accepted early retirement amounted to approximately $21 million during the twenty-six week period ended July 30, 2016. We still expect annualized cost savings from these program of approximately $11 million.

    Back office efficiency initiatives. During the first quarter of Fiscal 2016, the Company announced internally a plan to reduce costs related to certain back office functions and establish a more fully integrated global back office support system. Implementation of this initiative is well underway and we are still on track to realize annualized costs savings of approximately $7 million.

    Distribution centre automation. The Company is working to drive innovation and expense reductions by implementing state of the art automated fulfillment solutions at our Toronto, Ontario and new Pottsville, Pennsylvania fulfillment locations. We are still on track for the delivery of these automated centres in the fall of 2016 for Toronto and the spring of 2018 for Pottsville and anticipate reductions in fulfillment cost per unit resulting from completion of these projects.
  - *Gross Profit Enhancements.* The Company is focused on increasing its gross profit through (i) upgrading technology to improve all stages of merchandise planning and (ii) using its evolving digital commerce fulfillment functionalities and improving its automation technology at its fulfillment centres to optimize inventory productivity across each banner.

Mergers, Acquisitions and Strategic Expansions

One component of the Company's strategy is to become a global world class department store retailer, as evidenced by the Company's expansion into Europe. On September 30, 2015, the Company closed the Kaufhof Acquisition, which added retail locations across two countries in Europe, further strengthening the Company's retail portfolio as well as providing a platform for further growth throughout Europe. In May 2016, the Company leveraged on its existing infrastructure in Europe and announced its intention to expand its European presence with plans to open up to 20 new stores in the Netherlands over the following 24 months. The first of such stores are expected to launch in the summer of 2017 and operate under the Hudson's Bay and Saks OFF 5TH banners. This expansion will utilize the Company's existing information technology, procurement, and digital support platforms. In preparation for this expansion, during the second quarter, the Company signed long-term lease agreements for 11 locations in the Netherlands, representing approximately 1.5 million square feet of gross leasable area. New stores announced during the quarter included Hudson's Bay stores in Amsterdam, Den Bosch, The Hague, Enschede, and Zwolle.

On February 1, 2016, the Company closed the Gilt Acquisition. Gilt is an e-commerce fashion retailer with a large millennial customer base. The Company is continuing to integrate Gilt within the Saks OFF 5TH banner. The Gilt acquisition brought HBC improved digital capabilities, especially in the increasingly important mobile and personalization technologies. HBC provides Gilt with an outlet to manage inventory more efficiently through the use of Saks OFF 5TH stores. In addition Gilt is opening "stores within a store" (i.e. physical locations) in certain Saks OFF 5TH locations. This will enable customers to return items to Saks OFF 5TH which will not only provide optionality for existing Gilt customers but should also attract new customers into Saks OFF 5TH locations and provide the ability to acquire new Gilt customers at a very low acquisition cost.

Real Estate Strategy

In addition to successfully operating and integrating its retail business and banners, the Company has demonstrated a history of leveraging value from its substantial real estate holdings. The Company's valuable real estate portfolio also serves to strengthen the Company's balance sheet and operating business and provides the Company with increased financial flexibility. Previous transactions and initiatives include the sale of the Zellers leases for $1.8 billion in 2011, the Queen Street sale of the Toronto flagship property for $650 million in Fiscal 2014 and the U.S.$1.25 billion mortgage financing of the ground portion of the Saks Fifth Avenue flagship property in New York City, also in Fiscal 2014. During the quarter, as part of the refinancing of the Lord & Taylor Mortgage, an independent appraisal of the Lord & Taylor flagship store in New York City valued the property at U.S.$655 million.

On July 9, 2015, the Company and RioCan closed the first tranche of the RioCan-HBC JV transaction and on November 25, 2015 closed the second tranche.

On July 22, 2015, the Company and Simon closed the HBC-Simon JV transaction. On September 30, 2015, Simon contributed an additional U.S.$178 million towards the acquisition of the Kaufhof Property Business (see "Kaufhof Acquisition"). On November 17, 2015, the Company announced the sale of a portion of its equity investment in the HBS Joint Venture (including a related entity) for proceeds of U.S.$533 million to three new third party investors. Proceeds from the sale, together with cash on hand, were used to reduce the Company's outstanding U.S. Term Loan B from U.S.$1,085 million to U.S.$500 million. The total third party investment of U.S.$533 million values the HBS Joint Venture's portfolio at approximately U.S.$4.5 billion based on a blended capitalization rate of 5.90%. For further details, see note 12 of the Company's Fiscal 2015 audited consolidated financial statements. On March 30, 2016, the Company sold a further portion of its investment in the HBS Joint Venture (including a related entity) to Madison International Realty for total proceeds of U.S.$50 million. The proceeds of U.S.$50 million from the sale were used to pay down the Global ABL. As a result of the transaction, the Company recognized a pre-tax gain on the equity sale of approximately U.S.$34 million ($45 million).

The RioCan-HBC JV and the HBS Joint Venture (the "Joint Ventures") create new growth platforms for the Company and include real estate in the United States, Canada and internationally. It is expected that any future property acquisitions will diversify the asset portfolios and tenant base of each joint venture and create additional value. The structures of the joint ventures are designed to facilitate an IPO or other monetization transactions of each joint venture at a future date. See the "Real Estate Joint Ventures" section of this MD&A.

Highlights of the thirteen week period ended July 30, 2016 compared to the thirteen week period ended August 1, 2015

- Retail sales, which include digital sales from all banners were $3,252 million, an increase of $1,214 million or 59.6% from $2,038 million.

- Consolidated comparable sales increased by 1.9% and on a constant currency basis decreased by 1.3%. On a constant currency basis, comparable sales increased by 1.1% at DSG, decreased by 1.3% at Saks Fifth Avenue, decreased by 11.4% at HBC Off Price and decreased by 0.9% at HBC Europe.
- Total digital sales increased by 84.4% and on a constant currency comparable basis increased by 1.4%, reflecting the Company's continued strategic focus on growing this channel. See "Factors Affecting Our Performance - Comparable Sales".
- Gross profit rate, as a percentage of retail sales, was 41.5%, a 200 basis point improvement.
- Adjusted EBITDA was $81 million compared to $52 million, an increase of $29 million. As a percentage of retail sales, Adjusted EBITDA was 2.5% compared to 2.6%.
- Adjusted EBITDAR was $263 million compared to $123 million, an increase of $140 million. As a percentage of retail sales, Adjusted EBITDAR was 8.1% compared to 6.0%.
- Net Loss was $142 million compared to Net Earnings of $59 million, a decrease of $201 million.
- Normalized Net Loss was $122 million compared to $61 million, an increase in loss of $61 million.

Highlights of the twenty-six week period ended July 30, 2016 compared to the twenty-six week period ended August 1, 2015

- Retail sales, which include digital sales from all banners were $6,555 million, an increase of $2,445 million or 59.5% from $4,110 million.
- Consolidated comparable sales increased by 3.2% and decreased on a constant currency basis by 1.1%. On a constant currency basis, comparable sales increased by 1.7% at DSG, decreased by 3.7% at Saks Fifth Avenue and decreased by 7.9% and 0.1% at HBC Off Price and HBC Europe, respectively.
- Total digital sales increased by 86.9% and on a constant currency comparable basis increased by 5.5%, reflecting the Company's continued strategic focus on growing this channel. See "Factors Affecting Our Performance - Comparable Sales".
- Gross profit rate, as a percentage of retail sales, was 41.7%, a 140 basis point improvement.
- Adjusted EBITDA was $143 million compared to $156 million, a decrease of $13 million. As a percentage of retail sales, Adjusted EBITDA was 2.2% compared to 3.8%.
- Adjusted EBITDAR was $513 million compared to $294 million, an increase of $219 million. As a percentage of retail sales, Adjusted EBITDAR was 7.8% compared to 7.2%.
- Net Loss was $239 million compared to Net Earnings of $10 million, a decrease of $249 million.
- Normalized Net Loss was $213 million compared to $89 million, an increase in loss of $124 million.

Factors Affecting Our Performance

Retail Sales

The majority of our sales are from branded merchandise purchased directly from the brand owners or their licensees. We focus on offering a broad selection of branded and private-label merchandise appealing to the fashion taste of our customers. The quality and breadth of our selection allow us to change the mix of our merchandise based on fashion trends and individual store locations, and enable us to address a broad customer base.

Comparable Sales

The Company calculates comparable sales on a year-over-year basis from stores operating for at least thirteen months and includes online sales and clearance store sales. Stores undergoing remodeling remain in the comparable sales calculation base unless the store is closed for a significant period of time. Effective Fiscal 2015, the calculation for comparable sales for our operating segments DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe excludes sales related accounting adjustments. In calculating the comparable sales change including digital sales on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year comparable sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Comparable sales results disclosed under "Summary of Consolidated Quarterly Results" reflect this revised approach since the second quarter of Fiscal 2015. Definitions and calculations of comparable sales differ among companies in the retail industry.

As of the second quarter of Fiscal 2016, for certain of our banners for which this was not the case, digital sales now include sales and returns based on where the sale was originated, rather than where the order was fulfilled. In calculating total and comparable digital sales growth, sales for previously reported periods have been restated for this change. The change provides a more accurate depiction of our digital sales growth and has resulted in reporting marginally higher growth in the current quarter and on a year to date basis than would have otherwise been reported under the previous method.

Gross Profit

Our cost of sales consists mainly of merchandise purchases, including transportation and distribution costs. Purchases are variable and proportional to our sales volume. We record vendor rebates as a reduction of inventory cost. All costs directly associated with transportation and distribution, excluding central storage costs and any idle capacity, are capitalized as merchandise inventories.

We manage our businesses to improve gross margin in a number of different ways. We manage the level of promotional activity relative to regular price activity and manage inventory levels to minimize the need for substantial clearance activity. We source private-label products and directly import certain branded products from overseas markets including, among others, China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, our cost of sales for our Canadian operations is impacted by the fluctuation of foreign currencies against the Canadian dollar. In particular, we purchase a significant amount of our imported merchandise from suppliers in Asia using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the U.S. dollar against the Canadian dollar.

We enter into forward contracts to hedge some of our exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. Increases in the price of merchandise, raw materials, fuel and labour, or their reduced availability could increase our cost of goods and negatively impact our financial results. Generally, we offset these cost increases with pricing adjustments in order to maintain a consistent gross profit on the merchandise, which may cause changes in our unit volume but typically has a minimal impact on our gross profit rates.

Foreign Exchange

Our net investments in Lord & Taylor Acquisition Inc. ("L&T Acquisition"), the indirect parent of Lord & Taylor and Saks, Gilt and HBC Europe, whose functional currencies are not Canadian dollars present foreign exchange risks to HBC. The Company is using a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.$245 million of U.S. Term Loan B as a hedge of the first U.S.$245 million of net assets of L&T Acquisition. Foreign currency translation of the net (loss) earnings of L&T Acquisition, Gilt and HBC Europe impacts consolidated net (loss) earnings . Foreign currency translation of HBC's investments in L&T Acquisition, Gilt and HBC Europe impacts other comprehensive (loss) income.

Foreign currency gains and losses on certain intra group monetary liabilities between group entities with different functional currencies impact the Company's consolidated net (loss) earnings.

Selling, General & Administrative Expenses ("SG&A")

Our SG&A consists of store labour and maintenance costs, store occupancy costs, advertising and marketing costs, salaries and related benefits of corporate and field management associates, administrative office expenses, services purchased and other related expenses. SG&A includes buying and occupancy costs and excludes transportation and distribution centre costs included in inventory and cost of sales. It also includes pension, restructuring and other non-recurring items and excludes depreciation and amortization expenses. Although our average hourly wage rate is generally higher than the minimum wage, an increase in the mandated minimum wage could significantly increase our payroll costs unless we realize offsetting productivity gains and cost reductions.

Our occupancy costs are driven primarily by rent expense, which may include escalation clauses over existing lease terms, including option periods. We believe that our existing leases are generally consistent with current market rates. When entering into new leases, we are generally able to negotiate leases at attractive market rates due to the increased consumer traffic that our stores generate in strip malls and shopping centres.

Under our legacy credit agreements, we earned royalty payments from credit card issuers based on the total of Company and other sales charged to either the Private Label Credit Cards ("PLCC") or MasterCard. Royalty rates changed based on the year-to-date credit volume of out-of-store credit card sales. We also received bounty payments from credit card issuers for each approved PLCC or MasterCard account. Bounty and royalty payments were recognized based on expected or actual performance over the life of the credit card agreements. With respect to the legacy credit agreement for Saks, the Company earned a blend of royalty payments, bounty payments and shared in the income and losses of the legacy credit program. In addition, pursuant to a servicing agreement with a credit card issuer, the Company received compensation for providing key customer service functions including new account openings, transaction authorizations, billing adjustments and customer inquiries. All credit card revenues related to the legacy credit agreements are included as a reduction of SG&A in our consolidated financial statements. We had no risk of credit loss on the credit card receivables in the underlying portfolio.

Effective January 1, 2015, we entered into a new credit card program that replaced our legacy credit card programs. Under this program, we share in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. The new credit card program was effective as of January 1, 2015 with respect to Hudson's Bay and Saks. In June 2015, we completed the transition to include Lord & Taylor's active participation to the program. Income related to the new program is included in SG&A.

Finance Costs

Our finance costs are expenses resulting from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on the early extinguishment of debt and fair value gains or losses and amortization charges related to embedded derivatives. In addition to credit ratings and credit spreads, our finance costs are dependent on fluctuations in the underlying indexes used to calculate interest rates, including, but not limited to, the Canadian prime rate, the Canadian Dealer Offered Rate and the London Interbank Offered Rate.

In connection with the Saks Acquisition, we issued Common Share purchase warrants to H.S. Investment L.P. ("HSILP"), an affiliate of Ontario Teachers' Pension Plan, and to West Face Long Term Opportunities Global Master L.P., a fund advised by West Face Capital Inc. The non-cash charges associated with the warrants fluctuate with changes in the Common Share trading price and other factors, as they require mark-to-market adjustments each reporting period. We record the mark-to-market valuation adjustment of these warrants as finance costs/income based on their end-of-period valuations.

Weather

Extreme weather conditions in the areas in which the Company's stores are located could adversely affect the Company's business and results of operations. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, earthquakes, or other extreme weather conditions over a prolonged period could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. The Company's business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could result in lower sales and more promotional activity to clear merchandise at the end of the season. Reduced sales from extreme or prolonged unseasonable weather conditions could materially and adversely affect the Company's business and results of operations.

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of the largest retailers in North America, Germany, Belgium and as announced previously, starting in 2017, the Netherlands, it has numerous and varied competitors at the international, national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, digital and mail-order retailers. Competition may intensify as new competitors enter into the markets in which our banners operate including U.S. competitors entering into the Canadian market, competitors to HBC Europe entering the German, Belgian and, beginning in 2017, the Dutch markets and/or if our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, digital applications, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its business and results of operations could be materially and adversely affected.

Consumer Trends

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. The Company's sales and operating results depend, in part, on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its market positioning in branded and private-label merchandise and product categories in an effort to satisfy customer demand. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the Company's business and results of operations. Consumers' discretionary spending impacts the Company's sales and may be affected by many factors outside of the Company's control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods, and the effects of weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of our annual sales volume and a substantial portion of our annual earnings. We generate approximately one-third of our sales during the fourth quarter of each fiscal year due to the Christmas and holiday shopping season.

Change in Accounting Policy - Inventories

During the fourth quarter of Fiscal 2015, the Company changed its policy with respect to the valuation of Saks' inventory from the retail method to cost, as well as the method of calculating the adjustment required to value inventory to its net realizable value. The change in policy was implemented retrospectively to February 2, 2014. The Company was unable to quantify the impact of the accounting change prior to February 2, 2014 as data required for this was not historically maintained at the necessary level of detail.

Prior to February 2, 2014, item cost was determined using the retail method, which reduced the selling price of inventories to cost using the application of average department mark-up. The adjustment to net realizable value was then calculated by assessing department aging and mark down status of items in the department. Subsequent to February 2, 2014, cost is determined using the weighted average cost method on an individual style basis. Net realizable value calculation is now performed integrating item level analysis as well as aging and markdown status.

The impact of the change in accounting policy for Fiscal 2014 is summarized as follows:

	Fiscal Quarter ended				Fiscal Year
(millions of Canadian dollars except per share amounts)	**May 3, 2014**	**Aug 2, 2014**	**Nov 1, 2014**	**Jan 31, 2015**	**2014**
(Increase) decrease in cost of sales	(6)	(11)	2	7	(8)
Increase (decrease) in income tax benefit	3	4	(1)	(3)	3
(Decrease) increase in net earnings for the period	(3)	(7)	1	4	(5)
Net (loss) earnings per common share - basic and diluted	(0.02)	(0.04)	0.01	0.02	(0.03)
(Decrease) increase in Adjusted EBITDA and Adjusted EBITDAR	(6)	(11)	2	7	(8)

The impact of the change in accounting policy for Fiscal 2015 is summarized as follows:

	Fiscal Quarter ended				Fiscal Year
(millions of Canadian dollars except per share amounts)	May 2, 2015	Aug 1, 2015	Oct 31, 2015	Jan 30, 2016	2015
Decrease (increase) in cost of sales	8	(14)	10	9	13
(Increase) decrease in income tax expense	(3)	6	(4)	(4)	(5)
Increase (decrease) in net earnings for the period	5	(8)	6	5	8
Net earnings (loss) per common share - basic	0.03	(0.04)	0.03	0.02	0.04
Net earnings (loss) per common share - diluted	0.03	(0.05)	0.03	0.02	0.04
Increase (decrease) in Adjusted EBITDA and Adjusted EBITDAR	8	(14)	10	9	13

Consolidated Financial Information

The following tables set out summary consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, for the thirteen and twenty-six week periods ended July 30, 2016. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2015. In the opinion of our management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

(millions of Canadian dollars except per share amounts)	Thirteen week period ended				Twenty-six week period ended			
	July 30, 2016		August 1, 2015 *(restated [1])*		July 30, 2016		August 1, 2015 *(restated [1])*	
	$	% [2]	$	% [2]	$	% [2]	$	% [2]
Earnings results								
Retail sales	3,252	100.0%	2,038	100.0%	6,555	100.0%	4,110	100.0%
Cost of sales	(1,901)	(58.5%)	(1,234)	(60.5%)	(3,821)	(58.3%)	(2,452)	(59.7%)
Gross profit	1,351	41.5%	804	39.5%	2,734	41.7%	1,658	40.3%
Selling, general and administrative expenses	(1,286)	(39.5%)	(775)	(38.0%)	(2,681)	(40.9%)	(1,555)	(37.8%)
Depreciation and amortization	(154)	(4.7%)	(101)	(5.0%)	(312)	(4.8%)	(201)	(4.9%)
Gain on sale of investments in joint ventures	—	—	—	—	45	0.7%	—	—
Gain on contribution of assets to Joint Ventures	—	—	133	6.5%	—	—	133	3.2%
Operating (loss) income	(89)	(2.7%)	61	3.0%	(214)	(3.3%)	35	0.8%
Finance costs, net	(56)	(1.7%)	(52)	(2.6%)	(101)	(1.5%)	(99)	(2.4%)
Share of net loss in Joint Ventures.	(51)	(1.6%)	(7)	(0.3%)	(53)	(0.8%)	(7)	(0.2%)
Dilution gains from investments in Joint Ventures	8	0.2%	—	—	12	0.2%	—	—
(Loss) Earnings before income tax	(188)	(5.8%)	2	0.1%	(356)	(5.4%)	(71)	(1.8%)
Income tax benefit	46	1.4%	57	2.8%	117	1.8%	81	2.0%
Net (Loss) Earnings for the period.	(142)	(4.4%)	59	2.9%	(239)	(3.6%)	10	0.2%
Net (Loss) Earnings per Common Share — basic	(0.78)		0.33		(1.31)		0.05	
Net (Loss) Earnings per Common Share — diluted	(0.78)		0.28		(1.31)		0.05	
Weighted average Common Shares outstanding — basic (millions)	182		182		182		182	
Weighted average Common Shares outstanding — diluted (millions)	182		188		182		185	
Supplemental information								
Adjusted EBITDA [3]	81	2.5%	52	2.6%	143	2.2%	156	3.8%
Adjusted EBITDAR [3]	263	8.1%	123	6.0%	513	7.8%	294	7.2%
Normalized SG&A [3]	1,249	38.4%	752	36.9%	2,549	38.9%	1,502	36.5%
Normalized Net Loss for the period [3]	(122)	(3.8%)	(61)	(3.0%)	(213)	(3.2%)	(89)	(2.2%)
Normalized Net Loss per Common Share — basic and diluted [3]	(0.67)		(0.34)		(1.17)		(0.49)	
Declared dividend per Common Share	0.05		0.05		0.10		0.10	

	Thirteen week period ended		Twenty-six week period ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Reported consolidated retail sales percentage change	59.6%	15.2%	59.5%	13.4%
Comparable sales percentage change[4]				
Consolidated	1.9%	14.3%	3.2%	12.9%
Consolidated (constant currency basis)	(1.3%)	4.2%	(1.1%)	3.5%
DSG	1.1%	4.9%	1.7%	4.9%
Saks Fifth Avenue [5]	(1.3%)	0.1%	(3.7%)	0.4%
HBC Off Price [6]	(11.4%)	12.7%	(7.9%)	11.5%
HBC Europe [7]	(0.9%)	N/A	(0.1%)	N/A
Store information				
Store count [8]				
Hudson's Bay	90	90		
Lord & Taylor	50	50		
Saks Fifth Avenue	41	38		
Saks OFF 5TH	102	85		
Home Outfitters	59	66		
HBC Europe	130	N/A		
Total	472	329		
Gross leasable area/Square footage (thousands) [8]				
Hudson's Bay	15,864	16,123		
Lord & Taylor	6,898	6,898		
Saks Fifth Avenue	5,051	4,741		
Saks OFF 5TH	3,028	2,423		
Home Outfitters	2,102	2,413		
HBC Europe	28,609	N/A		
Total	61,552	32,598		

Balance Sheet Data (millions of Canadian dollars)	**July 30, 2016**	*(restated [1])* **August 1, 2015**	*(restated [12])* **January 30, 2016**
	$	$	$
Cash	114	58	507
Trade and other receivables	505	168	512
Inventories	3,332	2,503	3,415
Current assets	4,150	2,864	4,628
Property, plant and equipment	5,224	3,672	5,156
Intangible assets and goodwill	1,965	1,274	1,763
Investment in joint ventures [9]	610	313	658
Total assets	12,427	8,541	12,640
Current liabilities [10]	2,548	1,617	2,794
Loans and borrowings (including current portion)	3,559	2,287	3,180
Finance leases (including current portion)	515	281	527
Investment in the RioCan-HBC JV [9]	14	49	27
Other liabilities (including current portion) [11]	1,618	956	1,367
Shareholders' equity	2,665	2,505	3,099

Notes:

(1) Certain previously reported figures have been restated due to the change in accounting policy relating to inventories. For more information, please refer to "Change in Accounting Policy - Inventories" and "Changes in Accounting Policies Including Initial Adoption".

(2) As a percentage of retail sales.

(3) See below for relevant definitions and tables for reconciliations of Net (Loss) Earnings to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Normalized SG&A and Net (Loss) Earnings to Normalized Net Loss.

(4) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months and includes digital sales and clearance store sales. The calculation for comparable sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe. Consolidated comparable sales include results for all banners. See "Factors Affecting our Performance - Comparable Sales".

(5) Comparable sales of Saks Fifth Avenue are calculated in U.S. dollars.

(6) Includes the Saks OFF 5TH, Find @ Lord & Taylor and Gilt banners (see "General Information") and is calculated on a constant currency basis. The results of Gilt are included from the Gilt Acquisition Date.

(7) Comparable sales of HBC Europe are calculated in Euros and are included from the Kaufhof Acquisition Date.

(8) Hudson's Bay Company operates one Find @ Lord & Taylor store, one Hudson's Bay outlet, two Zellers clearance centres and two Lord & Taylor outlets that are excluded from the store count and gross leasable area.

(9) See "Real Estate Joint Ventures" section.

(10) Excludes current loans and borrowings of $830 million as at July 30, 2016, $318 million as at August 1, 2015 and $451 million as at January 30, 2016; current other liabilities of $133 million as at July 30, 2016, $119 million as at August 1, 2015 and $126 million as at January 30, 2016; and current finance leases of $24 million as at July 30, 2016, $20 million as at August 1, 2015 and $25 million as at January 30, 2016.

(11) Includes deferred landlord incentives of $823 million as at July 30, 2016, $389 million as at August 1, 2015 and $648 million as at January 30, 2016.

(12) Restated for measurement period adjustments related to the Kaufhof Acquisition based on new information. Please see note 5 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 30, 2016.

The following table presents the reconciliation of Net (Loss) Earnings to Adjusted EBITDA and to Adjusted EBITDAR:

(millions of Canadian dollars)	Thirteen week period ended		Twenty-six week period ended	
	July 30, 2016	*(restated [1])* August 1, 2015	July 30, 2016	*(restated [1])* August 1, 2015
	$	$	$	$
Net (Loss) Earnings for the Period	**(142)**	59	**(239)**	10
Finance costs, net	56	52	101	99
Income tax benefit	(46)	(57)	(117)	(81)
Share of net loss in Joint Ventures	51	7	53	7
Gain on contribution of assets to Joint Ventures	—	(133)	—	(133)
Gain on sale of investments in joint ventures	—	—	(45)	—
Dilution gains from investments in Joint Ventures [2]	(8)	—	(12)	—
Non-cash pension expense	7	7	14	13
Depreciation and amortization	154	101	312	201
Impairment and other non-cash expenses	(6)	—	(8)	—
Share based compensation	9	6	17	11
EBITDA	**75**	42	**76**	127
Normalization and joint venture adjustments				
Acquisition and integration related expenses [3]	12	15	32	24
Lease guarantee provision [4]	—	—	16	—
Joint Ventures transaction costs	—	31	—	32
Foreign exchange adjustment [5]	1	(31)	3	(26)
Restructuring [6]	7	(1)	34	(1)
Credit card chargeback expense [7]	2	—	10	—
Other [8]	5	(4)	14	—
Net rent expense to Joint Ventures [9]	40	1	80	1
Cash rent to Joint Ventures	(110)	(8)	(222)	(8)
Cash distributions from Joint Ventures	49	7	100	7
Total normalizing and joint venture adjustments	6	10	67	29
Adjusted EBITDA	**81**	52	**143**	156
Rent adjustments				
Third party rent expense [10]	121	70	248	137
Cash rent to Joint Ventures	110	8	222	8
Cash distributions from Joint Ventures	(49)	(7)	(100)	(7)
Adjusted EBITDAR	**263**	123	**513**	294
Adjusted EBITDAR as a percentage of retail sales	**8.1%**	6.0%	**7.8%**	7.2%

The following table presents the reconciliation of SG&A to Normalized SG&A:

(millions of Canadian dollars)	Thirteen week period ended July 30, 2016	Thirteen week period ended August 1, 2015	Twenty-six week period ended July 30, 2016	Twenty-six week period ended August 1, 2015
	$	$	$	$
Reported SG&A	**1,286**	775	**2,681**	1,555
Normalization adjustments				
Non-cash pension expense	(7)	(7)	(14)	(13)
Impairment and other non-cash expense	6	—	8	—
Share based compensation	(9)	(6)	(17)	(11)
Acquisition and integration related expenses [3]	(12)	(15)	(32)	(24)
Joint Ventures transaction costs	—	(31)	—	(32)
Lease guarantee provision [4]	—	—	(16)	—
Foreign exchange adjustment [5]	(1)	31	(3)	26
Restructuring [6]	(7)	1	(34)	1
Credit card chargeback expense [7]	(2)	—	(10)	—
Other [8]	(5)	4	(14)	—
Total normalizing adjustments	(37)	(23)	(132)	(53)
Normalized SG&A	**1,249**	752	**2,549**	1,502
Normalized SG&A as a percentage of retail sales	**38.4%**	36.9%	**38.9%**	36.5%

Notes:

(1) Certain previously reported figures have been restated due to the change in accounting policy relating to inventories. For more information, please refer to “Change in Accounting Policy - Inventories” and “Changes in Accounting Policies Including Initial Adoption”.

(2) Represents gains realized as a result of the changes in ownership related to the Company’s investments in the Joint Ventures.

(3) Includes acquisition and integration expenses related to the acquisitions of Saks, Kaufhof and Gilt.

(4) Represents the Company’s expected share of costs associated with default on subleases guaranteed by the Company.

(5) Represents the impact of unrealized losses related to the translation of U.S. dollar and Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the Company.

(6) Restructuring includes preliminary costs associated with programs initiated by HBC Europe to optimize operating efficiencies and additional costs associated with the North American realignment program announced in the third quarter of Fiscal 2015.

(7) Represents additional non-recurring credit card chargeback expenses attributed to industry legal liability changes effective October 2015.

(8) Primarily represents duplicative costs associated with the U.S. office consolidation of $9 million and $14 million for the thirteen and twenty-six week periods ended July 30, 2016, respectively, costs related to the Netherlands expansion of $4 million for the thirteen and twenty-six week periods ended July 30, 2016 and other smaller items totaling nil and $4 million for the thirteen and twenty-six week periods ended July 30, 2016, offset by the share based compensation expense adjustment of $8 million for the thirteen and twenty-six week periods ended July 30, 2016 (see note 14 to the Company’s unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 30, 2016).

(9) Rent expense to the Joint Ventures net of reclassification of rental income related to the Company’s ownership interest in the Joint Ventures (see note 10 to the Company’s unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 30, 2016).

(10) Previously included rent expense related to leases at Home Outfitters that have been classified as onerous lease contracts. As of the second quarter of Fiscal 2016, we have removed amounts related to these onerous lease contracts and have restated any previously reported amounts impacted by this adjustment. See note 1 in “Summary of Consolidated Quarterly Results”.

The following table presents the reconciliation of Net (Loss) Earnings to Normalized Net Loss:

	Thirteen week period ended		Twenty-six week period ended	
		(restated [1])		*(restated [1])*
(millions of Canadian dollars)	**July 30, 2016**	**August 1, 2015**	**July 30, 2016**	**August 1, 2015**
	$	$	$	$
Net (Loss) Earnings for the period	**(142)**	59	**(239)**	10
Normalization adjustments [2]				
Gain on contribution of assets to Joint Ventures	—	(107)	—	(107)
Gain on sale of investments in joint ventures	—	—	(28)	—
Dilution gains from investments in Joint Ventures	(7)	—	(10)	—
Acquisition and integration related expenses and finance costs [3]	9	4	15	18
Joint Ventures transaction costs	—	20	—	21
Restructuring [4]	5	(1)	23	(2)
Financing related adjustments	2	13	2	13
Foreign exchange adjustment [5]	(1)	(26)	10	(22)
Adjustments to share of net loss in Joint Ventures [6]	9	—	(12)	—
Tax related adjustments	—	(20)	—	(20)
Lease guarantee provision [7]	—	—	12	—
Credit card chargeback expense [8]	1	—	6	—
Other [9]	2	(3)	8	—
Total normalizing adjustments	20	(120)	26	(99)
Normalized Net Loss	**(122)**	(61)	**(213)**	(89)

Notes:

(1) Certain previously reported figures have been restated due to the change in accounting policy relating to inventories. For more information, please refer to "Change in Accounting Policy - Inventories" and "Changes in Accounting Policies Including Initial Adoption".

(2) Net of income tax as appropriate.

(3) Includes acquisition and integration expenses related to the acquisitions of Saks, Kaufhof and Gilt. In addition, includes the recognition of non-cash finance income (costs) related to Common Share purchase warrants of nil and $8 million for the thirteen and twenty-six week periods ended July 30, 2016, respectively (thirteen and twenty-six week periods ended August 1, 2015: $5 million and $(3) million respectively).

(4) Restructuring includes preliminary expected costs associated with programs initiated by HBC Europe to optimize operating efficiencies and additional costs associated with the North American realignment program announced in the third quarter of Fiscal 2015.

(5) Represents the impact of unrealized losses related to the translation of U.S. dollar and Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the Company.

(6) Relates to the Company's share of unrealized foreign exchange gains incurred by the HBS Joint Venture on translation of a Euro denominated monetary liability related to the tax and legal structure of the joint venture.

(7) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company.

(8) Represents additional non-recurring credit card chargeback expenses attributed to industry legal liability changes effective October 2015.

(9) Primarily represents duplicative costs associated with the U.S. office consolidation of $5 million and $9 million for the thirteen and twenty-six week periods ended July 30, 2016, respectively and costs related to the Netherlands expansion of $3 million for the thirteen and twenty-six week periods ended July 30, 2016 and other smaller items totaling nil and $2 million for the thirteen and twenty-six week periods ended July 30, 2016, offset by the share based compensation expense adjustment of $6 million for the thirteen and twenty-six week periods ended July 30, 2016 (see note 14 to the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 30, 2016).

EBITDA and EBITDAR are non-IFRS measures that we use to assess our operating performance. EBITDA is defined as Net (Loss) Earnings before finance costs, income tax benefit, share of net loss in Joint Ventures, gain on contribution of assets to Joint Ventures, gain on sale of investments in joint ventures, dilution gains from investments in the Joint Ventures, non-cash pension expense, depreciation and amortization expense, impairment and other non-cash expenses and non-cash share based compensation expense. EBITDAR is defined as EBITDA before rent expense to third parties and net rent expense to Joint Ventures.

Adjusted EBITDA is defined as EBITDA adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalization and joint venture adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations. Adjusted EBITDAR is defined as Adjusted EBITDA excluding third party rent expense, cash rent to Joint

Ventures and cash distributions from Joint Ventures. Normalized Net Loss is defined as Net (Loss) Earnings adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations. Normalized SG&A is defined as SG&A adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations.

We have included EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Normalized Net Loss and Normalized SG&A to provide investors and others with supplemental measures of our operating performance. We believe EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Normalized Net Loss and Normalized SG&A are important supplemental measures of operating performance because they eliminate items that have less bearing on our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Normalized Net Loss and Normalized SG&A in the evaluation of issuers, many of which present similar metrics when reporting their results. Our management also uses Adjusted EBITDAR in order to facilitate retail business operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements and our ability to pay dividends on our Common Shares. As other companies may calculate EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Normalized Net Loss or Normalized SG&A differently than we do, these metrics may not be comparable to similarly titled measures reported by other companies.

For additional detail, refer to our tables outlining the relevant definitions and reconciliations of Net (Loss) Earnings to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, reported SG&A to Normalized SG&A and Net (Loss) Earnings to Normalized Net Loss. See also “Factors Affecting Our Performance - Comparable Sales” section.

Results of Operations

Thirteen week period ended July 30, 2016 compared to the thirteen week period ended August 1, 2015

Retail Sales

Retail sales, which include digital sales from all banners, were $3,252 million for the thirteen week period ended July 30, 2016, an increase of $1,214 million or 59.6% from $2,038 million for the thirteen week period ended August 1, 2015. The majority of the increase is related to the addition of HBC Europe retail sales following the Kaufhof Acquisition Date. Sales also grew as a result of new store openings, increased digital sales, combined with continued positive results at DSG. Currency improvements on the translation of U.S. dollar denominated sales further enhanced sales at DSG and Saks in the quarter.

Consolidated comparable sales increased by 1.9% and on a constant currency basis, decreased by 1.3% over the comparable thirteen week period in Fiscal 2015. On a constant currency basis, comparable sales increased by 1.1% at DSG, decreased by 1.3% at Saks Fifth Avenue, decreased by 11.4% at HBC Off Price and decreased by 0.9% at HBC Europe.

As discussed in the last quarter’s MD&A, HBC has significantly reduced its promotional activity at Saks OFF 5TH compared to the prior year, which has substantially increased margins while reducing sales. During the quarter, the Company also migrated the Saks OFF 5TH website to a new platform, which caused some disruption and impacted digital sales at this banner. In addition, at Gilt, which is included in HBC Off Price and is a major component of the Company's digital comparisons, the return policy was enhanced. The Company expects that the liberalization of the return policy at Gilt and the new common digital platform will enable the Company to build stronger relationships with its customers over the long term.

Total digital sales increased by 84.4% and on a constant currency comparable basis, by 1.4% over the comparable thirteen week period in Fiscal 2015, reflecting the Company’s continued strategic focus on growing this channel.

Gross Profit

Gross profit was $1,351 million for the thirteen week period ended July 30, 2016, compared to $804 million for the thirteen week period ended August 1, 2015. The increase was primarily related to the addition of HBC Europe following the Kaufhof Acquisition Date. Improved volume performance at DSG, combined with additional improvements in gross profit dollars as a result of favourable currency conversion on U.S. dollar denominated sales, resulted in further improvements in the quarterly gross profit.

Gross profit rate, as a percentage of retail sales as reported was 41.5%, which improved by 200 basis points over the same comparable thirteen week period ended August 1, 2015. Improvements in the gross profit rate in the quarter can be attributed to the addition of HBC Europe, realizing gross profit rates in excess of legacy HBC in the quarter. For additional discussion see “Factors Affecting Our Performance – Gross Profit”.

Selling, General & Administrative Expenses

SG&A was $1,286 million for the thirteen week period ended July 30, 2016, compared to $775 million for the thirteen week period ended August 1, 2015. The increase is primarily attributable to the addition of HBC Europe related SG&A, additional rent expense associated with the Company’s real estate Joint Ventures, and also driven by expenses related to acquisition and integration activities associated with Gilt, HBC Europe and the Joint Ventures. In addition, SG&A continues to be negatively impacted by the conversion of U.S. denominated expenses into Canadian dollars.

Normalized SG&A was $1,249 million for the thirteen week period ended July 30, 2016, compared to $752 million for the thirteen week period ended August 1, 2015, or an increase of $497 million. As a percentage of retail sales, Normalized SG&A was 38.4% in the second quarter of Fiscal 2016 compared to 36.9% in the second quarter of the prior year. This rate increase was primarily driven by the addition of HBC Europe and additional net rent expense incurred in connection with the Joint Ventures.

Adjusting for the impact of net rent expense to the Joint Ventures of $40 million, Normalized SG&A as a percentage of retail sales is reduced to 37.2% for the thirteen week period ended July 30, 2016. See also “Overview - Retail Strategy”.

Adjusted EBITDA and Adjusted EBITDAR

Adjusted EBITDA was $81 million compared to $52 million in the prior year, an increase of $29 million. As a percentage of retail sales, Adjusted EBITDA was 2.5% in the second quarter of Fiscal 2016 compared to 2.6% in the second quarter of the prior year.

Adjusted EBITDAR was $263 million compared to $123 million for the prior year, an increase of $140 million. As a percentage of retail sales, Adjusted EBITDAR was 8.1% compared to 6.0% for the second quarter of Fiscal 2015.

Finance Costs

Finance costs were $56 million in the thirteen week period ended July 30, 2016, compared to $52 million for the thirteen week period ended August 1, 2015, or an increase of $4 million. The increase relates to marginal increases in interest costs related to long-term and short-term borrowings, increased costs associated with finance leases added as a result of both the Joint Ventures and the Kaufhof Acquisition, offset by a reduction in write-off of deferred financing costs compared to the prior year. Additionally, prior year finance costs included a benefit from non-cash finance income generated from mark-to-market adjustments associated with the valuation of Common Share purchase warrants outstanding compared to no income for the thirteen week period ended July 30, 2016.

Income Tax Benefit

Income tax benefit was $46 million in the thirteen week period ended July 30, 2016, compared to $57 million for the thirteen week period ended August 1, 2015. The effective income tax rate increased primarily due to the benefits of net foreign exchange losses related to the repayment of U.S. dollar denominated debt in the prior year and international tax rate differentials in the current period.

Net (Loss) Earnings

Net Loss was $142 million in the thirteen week period ended July 30, 2016 compared to Net Earnings of $59 million in the thirteen week period ended August 1, 2015, a decrease of $201 million. The decrease is primarily due to a one-time gain of $133 million in the prior year related to the contribution of assets to the Joint Ventures and to a lesser extent, to charges related to acquisition, integration and restructuring activities associated with HBC Europe, North American operations and Gilt as well as the addition of expenses related to the Joint Ventures which are incurred evenly throughout the year.

Normalized Net Loss

Normalized Net Loss was $122 million in the thirteen week period ended July 30, 2016 compared to $61 million in the thirteen week period ended August 1, 2015, an increase in loss of $61 million.

Twenty-six week period ended July 30, 2016 compared to the twenty-six week period ended August 1, 2015

Retail Sales

Retail sales were $6,555 million for the twenty-six week period ended July 30, 2016, an increase of $2,445 million or 59.5% from $4,110 million for the twenty-six week period ended August 1, 2015. The majority of the increase is related to the addition of HBC Europe retail sales following the Kaufhof Acquisition Date. Sales also grew as a result of new store openings, increased digital sales, combined with continued positive results at DSG. Comparative growth at DSG and Saks on a year to date basis was further enhanced by currency improvements on the translation of U.S. dollar denominated sales.

Consolidated comparable sales increased by 3.2% and on a constant currency basis, decreased by 1.1% over the comparable twenty-six week period in Fiscal 2015. On a constant currency basis, comparable sales increased by 1.7% at DSG, decreased by 3.7% at Saks Fifth Avenue and decreased by 7.9% and 0.1% at HBC Off Price and HBC Europe, respectively.

As discussed in the last quarter's MD&A, HBC has significantly reduced its promotional activity at Saks OFF 5TH compared to the prior year, which has substantially increased margins while reducing sales. During the second quarter, the Company also migrated the Saks OFF 5TH website to a new platform, which caused some disruption and impacted digital sales at this banner. In addition, at Gilt, which is included in HBC Off Price and is a major component of the Company's digital comparisons, the return policy was enhanced. The Company expects that the liberalization of the return policy at Gilt and the new common digital platform will enable the Company to build stronger relationships with its customers over the long term.

Total digital sales increased by 86.9% and on a constant currency comparable basis by 5.5% over the twenty-six week period ended August 1, 2015, reflecting the Company's continued strategic focus on growing this channel.

Gross Profit

Gross profit as reported was $2,734 million for the twenty-six week period ended July 30, 2016, compared to $1,658 million for the twenty-six week period ended August 1, 2015. The addition of HBC Europe gross profit following the Kaufhof Acquisition Date and improved volume performance at DSG and Saks, combined with additional improvements in reported gross profit dollars as a result of favourable currency conversion on U.S. dollar denominated sales, resulted in overall improvements in gross profit dollars. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Gross profit rate, as a percentage of retail sales, was 41.7%, which improved by 140 basis points over the same comparable twenty-six week period ended August 1, 2015. The majority of the improvement is the result of the addition of HBC Europe with gross profit rates in excess of Legacy HBC banners.

Selling, General & Administrative Expenses

SG&A as reported was $2,681 million for the twenty-six week period ended July 30, 2016 compared to $1,555 million for the twenty-six week period ended August 1, 2015. The increase can be attributable to the addition of HBC Europe related SG&A, additional rent expense associated with the Company's real estate joint ventures, and other one-time adjustments related to acquisition and integration related activities associated with Gilt, HBC Europe, the Joint Ventures and Saks. In addition, SG&A continues to be negatively impacted by the conversion of U.S. denominated expenses into Canadian dollars.

Normalized SG&A was $2,549 million compared to $1,502 million for the twenty-six week period ended August 1, 2015, or an increase of $1,047 million. As a percentage of retail sales, Normalized SG&A was 38.9% for the twenty-six week period ended July 30, 2016 compared to 36.5% for the twenty-six week period ended August 1, 2015, or a deterioration of 240 basis points. This rate increase was primarily driven by the addition of HBC Europe and additional rent expense incurred in connection with the Joint Ventures.

Adjusting for the impact of net rent expense to the Joint Ventures of $80 million, Normalized SG&A as a percentage of retail sales is reduced to 37.7% for the twenty-six week period ended July 30, 2016.

Adjusted EBITDA and Adjusted EBITDAR

Adjusted EBITDA was $143 million compared to $156 million in the twenty-six week period ended August 1, 2015, a decrease of $13 million. As a percentage of sales, Adjusted EBITDA was 2.2% compared to 3.8% in the prior year.

Adjusted EBITDAR was $513 million compared to $294 million for the twenty-six week period ended August 1, 2015, an increase of $219 million. As a percentage of retail sales, Adjusted EBITDAR was 7.8% compared to 7.2% for the twenty-six week period ended August 1, 2015.

Finance Costs

Finance costs were $101 million in the twenty-six week period ended July 30, 2016 compared to $99 million for the twenty-six week period ended August 1, 2015, an increase of $2 million. The increase relates to increase in interest costs related to short-term borrowings, increased costs associated with finance leases added as a result of both the Joint Ventures and the Kaufhof Acquisition and increase in the net interest on pensions and employee benefits related to HBC Europe, offset by a reduction in write-off of deferred financing costs compared to the prior year. In addition, the increase is also offset as a result of non-cash finance income generated from mark to market adjustments associated with the valuation of Common Share purchase warrants outstanding for the twenty-six week period ended July 30, 2016 compared to non-cash finance expense generated for the prior year.

Income Tax Benefit

Income tax benefit was $117 million for the twenty-six week period ended July 30, 2016 compared to $81 million for the twenty-six week period ended August 1, 2015. The effective income tax rate decreased primarily due to the benefits of net foreign exchange losses related to the repayment of US dollar denominated debt in the prior year and foreign exchange differences on hedged and unhedged positions.

Net (Loss) Earnings

Net Loss was $239 million in the twenty-six week period ended July 30, 2016 compared to Net Earnings of $10 million in the twenty-six week period ended August 1, 2015, a decrease of $249 million. The decrease is primarily due to a one-time gain of $133 million in the prior year related to the contribution of assets to the Joint Ventures and to a lesser extent due to charges related to acquisition, integration and restructuring activities associated with HBC Europe, North American operations and Gilt as well as the addition of expenses related to the Joint Ventures which are incurred evenly throughout the year.

Normalized Net Loss

Normalized Net Loss was $213 million in the twenty-six week period ended July 30, 2016 compared to $89 million in the twenty-six week period ended August 1, 2015.

Kaufhof Acquisition

On September 30, 2015, HBC and the HBS Joint Venture completed the Kaufhof Acquisition by acquiring GALERIA Holding, the parent company of Germany's leading department store GALERIA Kaufhof and Belgium's only department store, Galeria INNO, for a total purchase price of €2.3 billion ($3.5 billion). In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties.

The transaction was structured such that the Company effectively acquired the operating business and certain properties of Kaufhof for €709 million ($1.1 billion) while the HBS Joint Venture acquired the property business valued at €1.6 billion ($2.4 billion), in each case, for accounting purposes.

The acquisition was financed in part by new real estate debt secured by 41 Kaufhof properties acquired by the HBS Joint Venture that had a transaction value of €2.6 billion ($4.0 billion). Additional financing for the transaction was provided by a new term loan at HBC and cash contributions by Simon to the HBS Joint Venture.

The Kaufhof Acquisition creates a global retail platform for the Company and provides the Company with an opportunity to grow internationally both through acquisitions and the eventual introduction of Saks Fifth Avenue and

Saks OFF 5TH into the German market. The Kaufhof Acquisition also provides the Company with a strong foundation to explore additional strategic growth prospects throughout Europe.

During the twenty-six weeks ended July 30, 2016, the Company identified measurement period adjustments based on new information relating primarily to property, plant and equipment, intangible assets and provisions.

The impacts of the adjustments to previously reported comparative amounts are as follows:

(millions of Canadian dollars)	Sept 30, 2015	Jan 30, 2016
Property, plant and equipment	2	2
Intangible assets	(11)	(11)
Finance leases	2	2
Provisions	(9)	(9)
Deferred tax liabilities	(2)	(2)

Real Estate Joint Ventures

The Joint Ventures have created new growth platforms for the Company. The Joint Ventures have mandates to acquire additional assets that are expected to diversify the portfolios and tenant base of each joint venture creating additional value for our shareholders.

On closing of the first tranche of the RioCan-HBC JV on July 9, 2015, HBC contributed seven owned or ground leased properties (including Hudson's Bay flagship properties in downtown Vancouver, Calgary, Ottawa, and Montreal) with approximately 2.6 million square feet and valued at approximately $1.3 billion. RioCan contributed a 50% interest in two mall properties in Ontario, Oakville Place and Georgian Mall. HBC received $352 million in cash proceeds from new debt issued at the RioCan-HBC JV.

On November 25, 2015, the second tranche of the RioCan-HBC JV closed. On closing of the second tranche of the RioCan-HBC JV, the Company indirectly contributed three additional ground leased properties, being the YSS Properties, totaling approximately 736,000 square feet, to the RioCan-HBC JV, with a transaction value of approximately $379 million based on a capitalization rate of 5.26%. RioCan has committed to contribute a total of $325 million to the RioCan-HBC JV for an eventual pro forma equity stake of approximately 20%. The balance of these contributions will consist of $53 million in tenant allowances ($21 million of which was provided in the twenty-six week period ended July 30, 2016), and $125 million to be used to fund future property acquisitions to increase the value and diversify the tenant base of the RioCan-HBC JV. These contributions are expected to be made by the third anniversary of the first tranche closing date.

On August 4, 2015, HBC obtained a favourable court declaration and order from the Superior Court of Justice-Ontario, which permitted the indirect contribution of the YSS Properties to the RioCan-HBC JV. This court order was appealed by the related landlords. On February 10, 2016, the Court of Appeal for Ontario denied the landlords' appeal.

For reporting purposes, the leases related to the YSS Properties were assessed and classified as operating leases. In the fourth quarter of Fiscal 2015, the Company recognized a pre-tax gain on the contribution of the YSS Properties of approximately $35 million based on RioCan's interest in the RioCan-HBC JV after the closing of the second tranche. Additionally, as part of the transaction, the Company's mortgage on the Yorkdale ground lease of approximately $47 million was assumed by an entity related to the RioCan-HBC JV.

On closing of the HBC-Simon JV on July 22, 2015, the Company contributed 42 owned or ground leased properties valued at approximately U.S.$1.7 billion, including the Saks Fifth Avenue Beverly Hills flagship and the Westchester and Manhasset Lord & Taylor stores. The contributed properties total approximately 5.4 million square feet. HBC received U.S.$600 million in cash proceeds from new debt issued at the HBC-Simon JV. Simon contributed an initial amount of U.S.$1 million upon closing. On September 30, 2015, prior to the Kaufhof Acquisition, the HBC-Simon JV became a wholly owned subsidiary of HBS Joint Venture. Simon contributed an additional U.S.$178 million to the HBS Joint Venture as part of the acquisition of the Kaufhof Property Business. Simon has committed to provide an additional U.S.$99 million to the HBS Joint Venture (U.S.$13 million of which was provided in the twenty-six week period ended July 30, 2016) for improvements to properties contributed by HBC to the joint venture.

In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties valued, for accounting purposes, at approximately €1.8 billion ($2.7 billion). This transaction was financed by a combination of a ten year real estate loan secured by the 41 properties, available cash held by the HBS Joint Venture and cash contributions by Simon and HBC.

On November 17, 2015, the Company sold a portion of its equity in the HBS Joint Venture (including a related entity) to three new third party investors, for total proceeds of U.S.$533 million. Proceeds from the equity sale, together with cash on hand, were used to reduce the Company's outstanding U.S. Term Loan B from U.S.$1,085 million to U.S. $500 million. The total third party investment of U.S.$533 million values the HBS Joint Venture's portfolio at approximately U.S.$4.5 billion based on a blended capitalization rate of 5.90%, and comprised of individual investments from the following entities:

- U.S.$250 million equity investment by Ivanhoé Cambridge;
- U.S.$150 million equity investment by Madison International Realty; and
- U.S.$133 million equity investment by a large U.S. pension.

On March 30, 2016, the Company sold a further portion of its investment in the HBS Joint Venture (including a related entity) to Madison International Realty for total proceeds of U.S.$50 million. The proceeds of U.S.$50 million from the sale were used to pay down the Global ABL. As a result of the transaction, the Company recognized a pre-tax gain on the equity sale of approximately U.S.$34 million ($45 million).

The Joint Ventures have been established with dedicated management teams focused on overseeing the contributed properties and growing the portfolio, with support from HBC, Simon, RioCan and Ivanhoé Cambridge. RioCan-HBC JV's board of directors is comprised of four directors, two of whom have been appointed by each of HBC and RioCan. The HBS Joint Venture's board of directors is comprised of five directors, two of whom have been appointed by each of HBC and Simon and one of whom has been appointed by Ivanhoé Cambridge. Unanimous Board consent of HBC and Simon members is required for all major operating decisions.

RioCan-HBC JV

The following provides additional information relating to the RioCan-HBC JV:

Statements of Earnings

(millions of Canadian dollars)	Thirteen week period ended July 30, 2016	Twenty-six week period ended July 30, 2016	Period from July 9, 2015 to August 1, 2015
Rental revenue	28	56	5
Rental revenue - recoveries	2	4	1
Property operating costs	(2)	(5)	(1)
Operating income	**28**	**55**	**5**
Depreciation and amortization	(11)	(21)	(2)
Earnings before finance costs	**17**	**34**	**3**
Finance costs, net	(2)	(3)	—
Net earnings	**15**	**31**	**3**

Balance Sheets

(millions of Canadian dollars)	July 30, 2016	August 1, 2015	January 30, 2016
Assets			
Cash	**1**	—	1
Accounts receivable	**8**	—	—
Prepaid expenses	**1**	—	—
Total current assets	**10**	—	1
Investment properties	**1,759**	1,433	1,755
Other non-current assets	**143**	120	142
Total assets	**1,912**	1,553	1,898
Liabilities			
Accounts payable and accrued liabilities	**5**	—	3
Loans and borrowings	**5**	12	2
Total current liabilities	**10**	12	5
Loans and borrowings	**541**	480	546
Other non-current liabilities	**1**	—	1
Total liabilities	**552**	492	552
Partners' Equity			
Partners' capital	**1,377**	1,062	1,356
Deficit	**(17)**	(1)	(10)
Total partners' equity	**1,360**	1,061	1,346
Total liabilities and partners' equity	**1,912**	1,553	1,898

Statements of Cash Flows

(millions of Canadian dollars)	Twenty-six week period ended July 30, 2016	Period from July 9, 2015 to August 1, 2015
Operating activities		
Net earnings for the period	31	3
Add: Finance costs, net	3	—
Earnings before finance costs	34	3
Less: Net cash interest paid	(7)	—
Items not affecting cash flows:		
Depreciation and amortization	21	2
Non-cash rental income	(9)	(1)
Change in working capital	1	—
Net cash inflow from operating activities	**40**	**4**
Investing activities		
Capital expenditures	(1)	—
Tenant allowance paid to tenant	(15)	—
Net cash outflow for investing activities	**(16)**	**—**
Financing activities		
Long-term loans and borrowings:		
Borrowings	—	352
Repayments	(1)	—
Contribution received	21	—
Promissory note to tenant	(6)	—
Proceeds paid to HBC	—	(352)
Distributions paid	(38)	(4)
Net cash outflow for financing activities	**(24)**	**(4)**
Change in cash	**—**	**—**
Cash at beginning of period	1	—
Cash at end of period	**1**	**—**

HBS Joint Venture

The following provides additional information relating to the HBS Joint Venture:

Statement of Net Earnings (Loss) and Comprehensive Income (Loss)

(millions of U.S. dollars)	Thirteen week period ended July 30, 2016	Twenty-six week period ended July 30, 2016	Period from July 22, 2015 to August 1, 2015
Rental revenue	85	167	4
Rental revenue - recoveries	5	9	—
Property operating costs	(5)	(6)	(3)
	85	170	1
General and administrative expenses [1]	(19)	18	—
Depreciation and amortization	(21)	(43)	(2)
Earnings (loss) before finance costs	**45**	**145**	**(1)**
Finance costs	(22)	(43)	(1)
Earnings (loss) before income taxes	**23**	**102**	**(2)**
Income tax expense	(4)	(7)	—
Net earnings (loss)	**19**	**95**	**(2)**
Other comprehensive income:			
Currency translation adjustment	**3**	**(8)**	**—**
Total comprehensive income (loss)	**22**	**87**	**(2)**

(1) Includes unrealized foreign exchange (losses) gains on translation of a Euro denominated monetary liability related to the tax and legal structure of the joint venture of $(16) million and $22 million for the thirteen and twenty-six week periods ended July 30, 2016..

Balance Sheets

(millions of U.S. dollars)	July 30, 2016	August 1, 2015	January 30, 2016
Assets			
Cash	**61**	259	103
Other current assets	**16**	—	13
Total current assets	**77**	259	116
Investment properties	**3,911**	1,647	3,841
Intangible assets	**55**	—	53
Assets controlled by non-controlling interest	**144**	—	143
Other non-current assets	**40**	—	40
Total assets	**4,227**	1,906	4,193
Liabilities			
Loans and borrowings	**1**	—	3
Deferred revenue	**24**	—	23
Due to HBC	**—**	5	—
Other current liabilities	**129**	10	165
Total current liabilities	**154**	15	191
Loans and borrowings	**2,313**	846	2,267
Deferred tax liabilities	**202**	—	196
Liabilities controlled by non-controlling interest	**107**	—	106
Other non-current liabilities	**104**	—	103
Total liabilities	**2,880**	861	2,863
Members' equity			
Members' capital	**1,369**	1,049	1,355
Deficit	**(60)**	(4)	(71)
Accumulated other comprehensive income	**1**	—	9
Non-controlling interest	**37**	—	37
Total members' equity	**1,347**	1,045	1,330
Total liabilities and members' equity	**4,227**	1,906	4,193

Statement of Cash Flows

(millions of U.S. dollars)	Twenty-six week period ended July 30, 2016	Period from July 22, 2015 to August 1, 2015
Operating activities		
Net earnings (loss) for the period	95	(2)
Add: Income tax expense	7	—
Add: Finance costs	43	1
Earnings before finance costs	145	(1)
Interest paid in cash	(44)	(1)
Items not affecting cash flows:		
Depreciation and amortization	43	2
Unrealized foreign exchange gains	(22)	—
Non-cash rental income	(29)	—
Changes in operating working capital	(8)	15
Net cash inflow from operating activities	**85**	**15**
Investing activities		
Tenant inducements	(14)	—
Net cash outflow for investing activities	**(14)**	**—**
Financing activities		
Long-term loans and borrowings:		
Issued	—	846
Repayments	(45)	—
Contributions received	13	—
Proceeds paid to HBC	—	(600)
Return of capital to members	(4)	—
Distributions paid	(80)	(2)
Net cash (outflow for) inflow from financing activities	**(116)**	**244**
Foreign exchange gain on cash	3	—
(Decrease) increase in cash	(42)	259
Cash at beginning of period	103	—
Cash at end of period	**61**	**259**

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financial information of the Company for the past eight quarters.

	Fiscal Quarter Ended							
(millions of Canadian dollars except per share amounts)	**Jul 30, 2016**	**Apr 30, 2016**	**Jan 30, 2016**	**Oct 31, 2015**	**Aug 1, 2015**	**May 2, 2015**	**Jan 31, 2015**	**Nov 1, 2014**
	$	$	$	$	$	$	$	$
Retail sales	3,252	3,303	4,486	2,566	2,038	2,072	2,632	1,913
Adjusted EBITDA	81	62	455	170	52	104	325	118
Adjusted EBITDAR [1]	263	250	626	280	123	171	391	184
Net (Loss) Earnings	(142)	(97)	370	7	59	(49)	115	(12)
Normalized Net (Loss) Earnings	(122)	(91)	145	(1)	(61)	(28)	157	4
Net (Loss) Earnings per Common Share - Basic [2]	(0.78)	(0.53)	2.03	0.04	0.33	(0.27)	0.63	(0.06)
Net (Loss) Earnings per Common Share - Diluted [2]	(0.78)	(0.58)	1.88	(0.04)	0.28	(0.27)	0.62	(0.06)
Reported Retail Sales Percentage Change	59.6%	59.4%	70.4%	34.1%	15.2%	11.7%	9.3%	94.4%
Comparable Sales Percentage Change [3]								
Consolidated	1.9%	4.4%	11.0%	12.9%	14.3%	11.7%	8.7%	7.1%
Consolidated (constant currency basis)	(1.3%)	(1.0%)	1.8%	2.0%	4.2%	2.7%	3.2%	2.7%
DSG	1.1%	2.3%	4.0%	5.1%	4.9%	4.9%	2.5%	1.4%
Saks Fifth Avenue [4]	(1.3%)	(5.7%)	(1.2%)	(3.6%)	0.1%	0.6%	2.3%	1.3%
HBC Off Price [5]	(11.4%)	(4.1%)	2.0%	2.8%	12.7%	10.3%	11.4%	19.2%
HBC Europe [6]	(0.9%)	0.7%	0.4%	6.6%	N/A	N/A	N/A	N/A

Notes:

(1) Previously included rent expense related to leases at Home Outfitters that have been classified as onerous lease contracts. As of the second quarter of Fiscal 2016, we have removed amounts related to these onerous lease contracts and have restated any previously reported amounts impacted by this adjustment. The impact to the first quarter of Fiscal 2016 was a decrease of $1 million while the annual impact to Fiscal 2015 was a decrease of $11 million ($2 million to $4 million per quarter).

(2) Net (Loss) Earnings per Common Share ("EPS") in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of Common Shares outstanding during the year. Thus, the sum of the four quarters' EPS may not equal the full-year EPS.

(3) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months and includes digital sales and clearance store sales. The calculation for comparable sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe. Consolidated comparable sales include results for all banners. See "Factors Affecting Our Performance - Comparable Sales".

(4) Comparable sales of Saks Fifth Avenue are calculated in U.S. dollars.

(5) Includes the Saks OFF 5TH, Find @ Lord & Taylor and Gilt banners (see "General Information") and is calculated in U.S. dollars. The results of Gilt are included from the Gilt Acquisition Date.

(6) Comparable sales of HBC Europe are calculated in Euros following the Kaufhof Acquisition Date.

Outlook

Given the overall retail environment, management currently expects Sales, Adjusted EBITDAR and Adjusted EBITDA for Fiscal 2016 to trend towards the bottom end of its outlook range. This outlook reflects the Company's performance to date and anticipates overall comparable sales growth, calculated on a constant currency basis, to be in the low single digits for the remainder of the fiscal year as the Company anniversaries the challenging fall season experienced in Fiscal 2015. The Company currently expects the following results for Fiscal 2016, which are fully qualified by the "Forward-Looking Statements" section of this MD&A.

(Canadian dollars)	Fiscal 2016
Sales	$14.9 to $15.9 billion
Adjusted EBITDAR	$1,560 to $1,710 million
Adjusted EBITDA	$800 to $950 million

The Company currently expects that in Fiscal 2016 it will make higher than normal investments in growth initiatives, with total capital investments, net of landlord incentives, expected to be between $750 million and $850 million, which is approximately 5.0%-5.7% of the midpoint of the Sales outlook. Included in these amounts is the anticipated capital spend associated with the Company's recent acquisitions: HBC Europe and Gilt. Capital expenditure related to growth initiatives is expected to be approximately 70% of the total amount, with the remaining 30% representing maintenance capital expenditures.

The above outlook reflects exchange rate assumptions of USD:CAD = 1:1.32 & EUR:CAD = 1:1.50. Any variation in these foreign exchange rate assumptions could impact the above outlook.

Liquidity and Capital Resources

Cash Flows

Total cash, including restricted cash, is managed to remain at minimal levels by drawing on or repaying our revolving credit facilities. Our liquidity and capital resources are primarily impacted by: (i) current cash and cash equivalents; (ii) operating activities; (iii) investing activities; and (iv) financing activities. The following table summarizes cash flows by activity:

	Thirteen week period ended		Twenty-six week period ended	
(millions of Canadian dollars)	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
	$	$	$	$
Operating activities	(45)	(118)	(380)	(328)
Investing activities	(174)	1,091	(556)	1,037
Financing activities	230	(950)	552	(818)
Increase (decrease) in cash	11	23	(384)	(109)
Foreign exchange gain (loss) on cash	2	—	(9)	(1)
Cash at beginning of period	101	35	507	168
Cash at end of period	114	58	114	58

Net Cash Flow - Operating Activities

For the thirteen week period ended July 30, 2016, net cash outflow from operating activities was $45 million compared to $118 million for the thirteen week period ended August 1, 2015, a decrease of $73 million. The decrease in outflow is due primarily to higher distributions of earnings from Joint Ventures and lower investments in working capital in the current period, offset in part by a decrease in cash from operations and higher cash income taxes and interest paid.

Net cash outflow from operating activities was $380 million for the twenty-six week period ended July 30, 2016 compared to $328 million for the twenty-six week period ended August 1, 2015, an increase in outflow of $52 million. The increase in outflow is primarily due to a decrease in cash from operations and higher cash income taxes and interest paid offset in part by higher distributions of earnings from Joint Ventures and lower investments in working capital in the current period.

Net Cash Flow - Investing Activities

For the thirteen week period ended July 30, 2016 net cash outflow for investing activities was $174 million compared to an inflow of $1,091 million for the thirteen week period ended August 1, 2015. The inflow in the prior year was primarily driven by the proceeds received from the contribution of assets to the Joint Ventures. In addition, we increased our capital expenditure activity in the current year.

Net cash outflow from investing activities was $556 million for the twenty-six week period ended July 30, 2016 compared to an inflow of $1,037 million for the twenty-six week period ended August 1, 2015, a net increase in outflow of $1,593 million. The inflow in the prior year was primarily driven by the proceeds received from the contribution of assets to the Joint Ventures. In addition, the Gilt Acquisition and increased capital expenditure in the current year contributed to the net increase in outflow.

Net Cash Flow - Financing Activities

For the thirteen week period ended July 30, 2016 net cash inflow for financing activities was $230 million compared to an outflow of $950 million for the thirteen week period ended August 1, 2015. The net increase in inflow primarily relates to increased issuances of both long-term and short-term borrowings in the current year combined with the repayment of Senior Term Loan B in the prior year.

Net cash inflow for financing activities was $552 million for the twenty-six week period ended July 30, 2016 compared to an outflow of $818 million for the twenty-six week period ended August 1, 2015, a net increase in inflow of $1,370 million over the comparable period. The net increase primarily relates to increased issuances of both long-term and short-term borrowings in the current year combined with the repayment of Senior Term Loan B in the prior year.

Cash Balances and Liquidity

The Company's primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with our new store opening and renovation programs, technology investments and strategic initiatives; (iii) seasonal inventory purchases and other working capital requirements; (iv) debt service and (v) acquisitions. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the fall, peaking just before the holiday selling season.

The Company's primary sources of funds are cash flows provided by operations, landlord incentives, our Global ABL revolving credit facility, and mortgage backed real estate financing. Other potential sources of funding may include new corporate loans and mortgages, the sale and leaseback of real estate properties, selling real estate, selling other company assets and investments or the issuance of equity. The availability of funding sources is dependent on economic conditions, capital markets, and our financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, real estate and other complimentary assets or companies. Transactions, if any, are expected to be financed through a combination of the following sources: cash on hand, borrowing under existing or new credit facilities and the issuance of long term debt or other securities, including Common Shares.

Funding Capacity

The Company anticipates that we will be able to satisfy our working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under our revolving credit facility and other sources of financing. The Company expects to generate adequate cash flow from operating activities to sustain current levels of operations.

Management believes that there is not a significant risk of default and/or arrears on lease payments, interest or principal payment of debt, or of a breach of debt covenants.

There is no provision in debt, lease, or other arrangements that could trigger an additional funding requirement for the Company. There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the Company that would affect the ability to meet its obligations as and when they fall due.

As described above, on July 19, 2016 the Company closed on the Lord & Taylor Mortgage to refinance the existing mortgage of U.S.$250 million due September 2017. The additional proceeds were used to reduce the borrowings on the Company's Global ABL. The Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. The borrower, LT 424 LLC, is in compliance with all covenants contained in the Lord & Taylor Mortgage.

Please refer to the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended January 30, 2016 for details regarding the Company's current and legacy credit facilities and loans.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. The Company entered into a number of leases during the second quarter. As a result, and as of July 30, 2016, the Company's contractual obligations related to leases have increased in the approximate amount of $36 million annually for lease terms with an average of 20 years. Otherwise, except as disclosed elsewhere in this MD&A, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to management's discussion and analysis for the thirteen and fifty-two weeks ended January 30, 2016.

In 2008, the Company assigned nine leases to Les Ailes de la Mode, Inc. ("Les Ailes") and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. ("ICI"). As of January 30, 2016, these leases had future minimum lease payments of $29 million. In December 2015, Les Ailes filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. The Quebec Superior Court has approved a Debtors Proposal with respect to the Les Ailes bankruptcy proceeding. HBC has filed a Proof of Claim under the proposal, but anticipates minimal, if any, recovery. On March 28, 2016, ICI filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. On June 6, 2016, the proposal trustee for ICI filed a Proposal in the ICI bankruptcy proceeding, which was approved by a majority of its creditors. ICI has filed an application with the Quebec Superior Court seeking approval of the Proposal. HBC has filed a Proof of Claim under the ICI proposal, but anticipates minimal, if any, recovery. The Company currently believes that the maximum claim against it with respect to these leases is approximately $16 million.

Guarantees and Off-Balance Sheet Arrangements

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions, and management believes that the risk of significant loss is low.

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company's letters of credit is approximately $118 million as at July 30, 2016.

Other than in connection with the Joint Ventures (including a related entity), the Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources. The Joint Ventures are accounted for using the equity method of accounting. As a result, indebtedness at the Joint Ventures is not consolidated in the Company's balance sheet and, based on HBC's current interests in the Joint Ventures, there is limited impact on cash flow. See the "Real Estate Joint Ventures" section of this MD&A.

Financial Instruments

The Company utilizes certain derivatives as cash flow hedges for its exposure to foreign currency risk and interest rate risk. The effective portion of the changes in the fair value of the hedging derivatives, net of taxes, is recognized in other comprehensive income or loss.

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts have been designated as cash flow hedges and reported at fair value in financial assets or financial liabilities, depending on their fair value. Once the inventory is recorded, the Company has elected to reclassify the related accumulated other comprehensive income or loss, amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in Net (Loss) Earnings.

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value through profit or loss and measured at fair value with any changes in their fair values recognized in Net (Loss) Earnings during the period in which the change occurs. Short-term deposits are classified as held to maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method.

All other financial liabilities are classified as other liabilities and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, are being presented as financial liabilities. The warrants are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in Net (Loss) Earnings in the period in which the change occurs. The fair values of the warrants are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 17 to the Company's audited consolidated financial statements for Fiscal 2015.

In connection with the Kaufhof Acquisition, the Company had previously entered into two separate forward foreign exchange contracts (the "FX forward contracts") during the thirteen weeks ended August 1, 2015 that resulted in the Company eliminating its foreign currency exposure on a portion of the proceeds that were to be used in the Kaufhof Acquisition. Each FX forward contract was designated as a hedge of the exposure to changes in USD/EUR related to the then planned acquisition of Kaufhof denominated in Euro. Each hedging relationship was assessed to be highly effective throughout the designated hedging period that ended on September 30, 2015, the Kaufhof Acquisition Date.

The FX forward contracts generated a loss of $6 million (and $2 million of deferred taxes) which, prior to the close of the transaction, was included in other comprehensive (loss) income and represents the mark-to-market adjustment to fair value from the date of execution of each FX forward contracts to September 30, 2015. Upon close of the Kaufhof Acquisition, this amount was included as part of the purchase price allocation of the Kaufhof Property Business acquired by the HBS Joint Venture.

The fair value of each FX forward contract was determined using a valuation technique that employs the use of market observable inputs and based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money (see note 17 of the Company's Fiscal 2015 audited consolidated financial statements).

On July 19, 2016, the Company closed the Lord & Taylor Mortgage and entered into two interest rate swap arrangements with a notional amount of U.S.$400 million to reduce its future cash flow exposure to floating interest rates. In relation to the U.S.$400 million Lord & Taylor Mortgage, the Company fixed the interest rate at approximately 4.3% over the term of the mortgage. Each interest rate swap is designated as a cash flow hedge and accounted for using hedge accounting. The interest rate swaps are valued based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date.

Tax Matters

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that there are no tax matters that will have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provisions for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its (loss) earnings could be affected, positively or negatively, during the period in which the matters are resolved.

Related Party Transactions

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed herein. Details of transactions with other related parties are disclosed below.

On May 6, 2011, a subsidiary of L&T Acquisition entered into a two year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include three renewal options. The first two renewal options are for terms of two and three years, respectively at an annual cost of U.S.$440 thousand. The third renewal option is for a term of five years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen and twenty-six weeks ended July 30, 2016 were U.S.$110 thousand and U.S.$220 thousand (2015: U.S. $110 thousand and U.S.$220 thousand). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are directors of the Company.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC ("Mack Properties") for approximately 35,000 square feet in Paramus, NJ. The lease has two renewal options for terms of 10 and 5 years, respectively. The rent commencement date was November 19, 2015 and amounts charged to the Company under the rental arrangement for the thirteen and twenty-six weeks ended July 30, 2016 were U.S.$219 thousand and U.S.$438 thousand. Mack Properties is owned by William Mack, a director of the Company. There were no amounts charged to the Company for the thirteen and twenty-six weeks ended August 1, 2015 since the rent commencement date had not yet occurred.

The Company has entered into vendor agreements with two related companies in which Earl Rotman, a director of the Company, has an ownership interest. The agreements relate to menswear and womenswear sold in Saks and DSG. During the thirteen and twenty-six week periods ended July 30, 2016, HBC purchased goods of approximately $566 thousand and $1 million, respectively from these companies, and has committed to ordering approximately $907 thousand for the remainder of Fiscal 2016.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of $8 million. The promissory note was interest-free and matured on July 22, 2016. As at July 30, 2016, the promissory note was repaid in full (August 1, 2015: $7 million; January 30, 2016: $4 million).

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC is reimbursed for expenses relating to advisory and administrative services it provides to the Joint Ventures. Reimbursement related to expenses for the thirteen and twenty-six weeks ended July 30, 2016 were $144 thousand million and $299 thousand million. Fees related to the thirteen and twenty-six weeks ended August 1, 2015 were waived by the Company.

As part of the acquisition of HBC Europe, the Company assumed a $22 million liability due to a wholly-owned subsidiary of the HBS Joint Venture. The liability relates to 2 properties the Company controls as a result of the acquisition. In addition, the Company acquired options to purchase these properties that when exercised, would relieve this liability. In addition, the Company has an outstanding payable to the HBS Joint Venture in the amount of $11 million as at July 30, 2016.These liabilities have been included in other liabilities.

During the thirteen and twenty-six weeks ended July 30, 2016, the Company incurred rent expense of $131 million and $265 million (2015: $5 million) related to both the RioCan-HBC JV and the HBS Joint Venture. As at July 30, 2016, other current assets included prepaid rent to the HBS Joint Venture of $31 million (August 1, 2015: $12 million; January 30, 2016: $13 million).

The Company has an outstanding receivable in the amount of $49 million, as at July 30, 2016 (August 1, 2015: nil; January 30, 2016: $46 million), due from the HBS Joint Venture with respect to transactions carried out on behalf of the Company.

Included in other current liabilities as at July 30, 2016 is a promissory note in the amount of $12 million to both the RioCan-HBC JV and RioCan ($6 million each) which pertains to a tenant improvement advance from the joint venture to the Company. The promissory note is interest-free and will be settled over time as HBC satisfies its tenant improvement commitment.

All of the above amounts have been recorded at the exchange value of the transaction.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 2 of the Fiscal 2015 audited consolidated financial statements.

The preparation of these financial statements requires management to make judgments, estimates and assumptions that are not readily apparent from other sources about the carrying amounts of assets and liabilities, and reporting of income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized during the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements (see note 3 to the Company's audited consolidated financial statements for Fiscal 2015):

- Inventories
- Loyalty programs
- Impairment and reversal of impairment of long-lived assets
- Impairment of goodwill
- Income taxes
- Post-employment benefits
- Valuation of financial instruments
- Business combinations
- Joint ventures

Changes in Accounting Policies Including Initial Adoption

Change in Accounting Policies

Inventories

During the fourth quarter of Fiscal 2015, the Company changed its policy with respect to the valuation of inventory from the retail method to cost and its method of calculating the adjustment required to value inventory at its net realizable value. Cost is determined using the weighted average cost method on an individual item basis. The change in policy was implemented retrospectively to February 2, 2014. Prior to February 2, 2014, cost was determined using the retail inventory method, which reduces the selling price of inventories to cost by the application of average department or category mark-up. The adjustment to net realizable value is now performed on an item by item basis, whereas historically the analysis was calculated by segregating inventory into departments of merchandise having similar characteristics. The Company is not able to quantify and determine the impact of the change for periods prior to February 2, 2014 as the financial data was not historically maintained at the necessary level of detail.

Future Expected Changes

<u>Financial Instruments</u> - In July 2014, the IASB issued IFRS 9 – Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39").

Classification and measurement

Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in other comprehensive income instead of net earnings.

Impairment

The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting

The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The new model will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

Joint Arrangements - In May 2014, the IASB amended IFRS 11 – Joint Arrangements ("IFRS 11") to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 – Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company has concluded that the amendment will not have an impact on its results of operations, financial position or disclosure.

Leases - In January 2016, the IASB issued the final publication of the IFRS 16 - Leases ("IFRS 16"), standard which is to replace the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. The Company is assessing the potential impact of IFRS 16.

Management's Report on Internal Controls over Financial Reporting

Disclosure Controls and Procedures

National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filing ("NI 52-109") requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the company. Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

Subject to the limitations set out below, the Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Limitation on Scope of Design

The CEO and CFO have limited the scope of design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of HBC Europe which was acquired on September 30, 2015.

This scope limitation is in accordance with section 3.3(1)(b) of NI 52-109, which allows for an issuer to limit the design of disclosure controls and procedures and internal control over financial reporting for a business that the issuer acquired not more than 365 days before the last day of the period covered by this MD&A.

The following is a summary of certain financial information related to HBC Europe:

(millions of Canadian dollars)	**Thirteen week period ended July 30, 2016**	**Twenty-six week period ended July 30, 2016**
Retail sales	969	1,926
Net loss	(48)	(113)

(millions of Canadian dollars)	**July 30, 2016**
Current assets	859
Non-current assets	1,477
Current liabilities	1,256
Non-current liabilities	907

These results are prepared under IFRS and may not be comparable to HBC Europe's historical reporting prior to its acquisition by the Company.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the thirteen and twenty-six week periods ended July 30, 2016 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the most recently filed Annual Information Form dated April 28, 2016, is available on SEDAR at www.sedar.com.

Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on June 9, 2016, which was paid on July 15, 2016, to shareholders of record at the close of business June 30, 2016. The dividend was in the amount of $0.05 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of September 6, 2016, the Company had 182,201,068 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of September 6, 2016, the Company had

18,618,280 share options, 1,873,360 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012. In addition, there are approximately 34 million Common Shares reserved for issuance for the exercise of share options, warrants and the settlement of restricted share units. Assuming exercise of all outstanding share options and the settlement of all outstanding restricted share units, there would be approximately 202.7 million Common Shares issued and outstanding on a fully diluted basis. Assuming exercise of all outstanding share options, the settlement of all outstanding restricted share units and the exercise of all outstanding warrants, there would be approximately 209.4 million Common Shares issued and outstanding on a fully diluted basis.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's Annual Information Form dated April 28, 2016, which is available on SEDAR at www.sedar.com.